

ORIGINAL



0000107075

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - CHAIRMAN
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2010 FEB -21 P 3:41

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
THE PROPERTIES OF UNS ELECTRIC, INC.
DEVOTED TO ITS OPERATIONS
THROUGHOUT THE STATE OF ARIZONA.

) DOCKET NO. E-04204A-09-0206

**NOTICE OF FILING
UNS ELECTRIC, INC.'S
SUMMARIES OF WITNESSES'
TESTIMONY**

UNS Electric, Inc., through undersigned counsel, hereby files the summaries of Michael J. DeConcini, Thomas A. McKenna, Kentton C. Grant, Martha B. Pritz, Karen G. Kissinger, Dallas J. Dukes and D. Bentley Erdwurm in the above-captioned docket.

RESPECTFULLY SUBMITTED this 2nd day of February 2010.

UNS Electric, Inc.

By

Michael W. Patten
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Arizona Corporation Commission

DOCKETED

FEB - 2 2010

DOCKETED BY

and

Philip J. Dion
UniSource Energy Services
One South Church Avenue
Tucson, Arizona 85702

Attorneys for UNS Electric, Inc.

1 Original and thirteen copies of the foregoing
2 filed this 2nd day of February 2010, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/
8 mailed this 2nd day of February 2010, to:

9 Chairman Kristen K. Mayes
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Commissioner Gary Pierce
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 Commissioner Sandra D. Kennedy
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21 Commissioner Paul Newman
22 Arizona Corporation Commission
23 1200 West Washington Street
24 Phoenix, Arizona 85007

25 Commissioner Bob Stump
26 Arizona Corporation Commission
27 1200 West Washington Street
Phoenix, Arizona 85007

Giancarlo G. Estrada
Advisor to Chairman Mayes
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

John LeSueur
Advisor to Commissioner Pierce
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Alan Stephens
Advisor to Commission Newman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 Cristina Arzaga-Williams
Advisor to Commission Kennedy
2 Arizona Corporation Commission
1200 West Washington Street
3 Phoenix, Arizona 85007
4 Amanda Ho
Advisor to Commissioner Stump
5 Arizona Corporation Commission
1200 West Washington Street
6 Phoenix, Arizona 85007
7 Daniel Pozefsky
Residential Utilities Consumer Office
8 1110 West Washington, Suite 200
Phoenix, Arizona 85007
9 Timothy M. Hogan
10 Arizona Center for Law in the Public Interest
202 East McDowell Road, Suite 153
11 Phoenix, Arizona 85004
12 Lyn A. Farmer, Esq.
Chief Administrative Law Judge
13 Hearing Division
Arizona Corporation Commission
14 400 West Congress
Tucson, Arizona 85701
15 Maureen A. Scott, Esq.
16 Wesley Van Cleve, Esq.
Legal Division
17 Arizona Corporation Commission
1200 West Washington Street
18 Phoenix, Arizona 85007
19 Steve Olea
Director, Utilities Division
20 Arizona Corporation Commission
1200 West Washington Street
21 Phoenix, Arizona 85007
22

23 By Mary Appolito
24
25
26
27

**Summary of the Testimony
of Michael J. DeConcini
Docket No. E-04204A-09-0206**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct Testimony, I provided: (i) an overview of UNS Electric' operations; (ii) a summary of UNS Electric' rate request and the factors that have caused the Company to file its application at this time; (iii) the Company's recommended Fair Value Rate Base Rate of Return; (iv) an introduction into the rate design that UNS Electric is proposing in this case, including higher customer charges and its Time-of-Use proposals; (v) information on revisions to its rules and regulations and developer contributions; (vi) UNS Electric's power supply and PPFAC mechanism; and (vii) UNS Electric's proposed acquisition of Black Mountain Generating Station (BMGS) and its request for rate reclassification.

In sum, in order to provide necessary rate relief, UNS Electric requests the Commission to authorize UNS Electric to increase its rates by \$13.5 million. This would result in an average 7.4% increase to a customer's total bill compared to Test Year revenues, inclusive of power costs. The effect on the fixed monthly and delivery charges on an average customer's bill will be an increase in those components of approximately 28% compared to Test Year revenues, *excluding* electric cost recovery.

My Rebuttal Testimony addresses several areas. First, I provide an overview of UNS Electric's response to the Direct Testimony of Arizona Corporation Commission Staff, the Residential Utility Consumer Office and the Arizona School Board Association (ASBA) / Arizona Association of School Business Officials (AASBO). In particular, I address the Company's substantial concerns with the inadequate revenue requirements proposed by Commission Staff and RUCO. Second, I respond to the Direct Testimony of Commission Staff witness Dr. Thomas H. Fish regarding BMGS and describe why the Company's proposal to acquire BMGS is in the public interest. Third, I discuss why the Company should be allowed to recover non-revenue-producing plant that is either currently serving customers or will be serving customers when rates established in this case go into effect. Specifically, I describe how the purpose of this plant is to serve existing customers and how significant the adverse impact on the Company's ability to earn a return on its investment if it is not included in rate base in this case. Fourth, I emphasize why the Company's recommendations on Cost of Capital and Rate of Return on Fair Value Rate Base are adequate and commensurate with the level of risk the Company faces and are consistent with recent Commission orders. Fifth, I discuss the Company's request to recover credit support costs as these are actual cost incurred by UNS Electric in providing electric service and its proposal to recover \$195,500 in annual credit support costs be recovered from base rates – and its request for an interest reflecting the actual cost of short-term borrowing from its joint credit facility (3-month LIBOR plus 1.0%). Sixth, I briefly address rate design, TOU, and low income issues. Finally, I respond to ASBA / AASBO witness Chuck Essigs.

In my Rejoinder Testimony, I summarize the many benefits of the Company's proposal regarding BMGS. I also provide additional testimony regarding its request to include certain non-revenue-producing post-test-year plant in rate base, fuel and purchased power brokers fees and policies, and recommendations from ASBA/AASBO regarding school-specific renewable energy programs, energy efficiency programs and TOU.

**Summary of the Testimony
of Thomas A. McKenna
Docket No. E-04204A-09-0206**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct Testimony, I discussed: (i) UNS Electric's operations in Mohave and Santa Cruz counties, the Company's present power supply and its customer service system; (ii) the Company's capital spending since the last rate case; (iii) proposed revisions to its rules and regulations; and (iv) the Black Mountain Generating Station (BMGS). Specifically regarding BMGS, I described: (i) how the facility has been in commercial operation since May 30, 2008; (ii) how UNS Electric will acquire BMGS at its actual current book value -- \$62 million; (iii) how BMGS would provide UNS Electric significant operational benefits, including flexibility, reliability, efficiency and location; and (iv) how there are few market alternatives to what BMGS provides.

In my Rebuttal Testimony, (i) I further discussed Staff's Direct Testimony regarding the Company's proposal to acquire BMGS and how the Company's proposal is in the best interests of both the Company and its customers; (ii) I responded to Staff's recommendations regarding the Company's rules and regulations; and (iii) I commented on the testimony offered by Staff witness W. Michael Lewis regarding service quality and reliability.

The purpose of my Rejoinder Testimony was to (i) continue to recommend the Company's proposal to acquire BMGS; (ii) to state that the Company agrees to all of Staff witness Kenneth Rozen's recommendations regarding its rules and regulations, including itemizing material costs in the construction cost estimates for line extensions, removing all language related to its original proposal for a facilities operating charge, and supporting an explicit waiver from A.A.C. R14-2-207.C. for UNS Electric in this proceeding; and (iii) provide additional response to Staff witness W. Michael Lewis regarding thermal scanning at the BMGS substation and listing worst-performing circuits in an annual report of distribution indices.

**Summary of the Testimony
of Kentton C. Grant
Docket No. E-04204A-09-0206**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

My Testimony addresses the rate of return (ROR) to be applied to fair value rate base (FVRB), the proposed purchase and rate base treatment of the Black Mountain Generating Station (BMGS), the interest rate to be applied to the balance of under- and over-recovered costs under the Company's Purchased Power and Fuel Adjustor Clause (PPFAC), and the recovery of credit support costs incurred by UNS Electric in its procurement of wholesale power and natural gas.

With respect to the ROR on FVRB, I recommend use of the same calculation methodology used by the Commission in Decision No. 70441 involving Chaparral City Water Company, or alternatively, the refinement to that methodology adopted by the Commission in a subsequent Chaparral City rate case (Decision No. 71308). In my Direct Testimony I derived a ROR on FVRB of 7.99% using the methodology adopted in Decision No. 71308, and then discounted this value to 6.88% in order to limit the proposed rate increase on customers while providing UNS Electric with an opportunity to earn its cost of capital. However, the alternative calculation approaches proposed by Staff and RUCO result in unreasonably low rates of return on FVRB (6.01% and 5.96%, respectively), and would deny UNS Electric any realistic opportunity of earning its cost of capital. Had Staff simply followed the same calculation methodology used by the Commission in Decision No. 71308, Staff would have obtained a 7.40% ROR on FVRB using Mr. Parcell's cost of capital and estimated inflation rate.

Regarding the Company's proposed purchase and rate base treatment of the BMGS, my testimony indicates that such a purchase would be of benefit to UNS Electric and its customers for many years to come. Relative to continued reliance on the wholesale market for peaking power, a purchase of the BMGS would promote long-term price stability to customers who would benefit from the cumulative effects of depreciation expense and deferred income taxes on rate base. However, due to the large size of this proposed investment relative to UNS Electric's existing asset base, the Company is not in a position to finance such a purchase until it has some reasonable assurance that the facility will indeed be placed into rate base. As proposed, this rate base treatment would be contingent upon the transfer of ownership to UNS Electric and would be accompanied by a revenue neutral rate reclassification that would have no net impact on the prices charged to customers. As noted in my testimony, the inclusion of the BMGS in rate base would also require an adjustment to the overall ROR on FVRB. Since the original cost of the BMGS is roughly equal to its fair value using the method traditionally relied upon by the Commission, the overall ROR on FVRB would need to be adjusted to reflect the Company's cost of capital on the BMGS portion of rate base.

**Summary of the Testimony
of Kentton C. Grant
Docket No. E-04204A-09-0206**

Finally, in order to provide for adequate cost recovery, I recommend that the interest rate applicable to PPFAC balances be changed from a one-year U.S. Treasury rate to the actual cost of short-term borrowing for UNS Electric. This rate is currently the 3-month London Interbank Offered Rate (LIBOR) plus a margin rate of one percent. Additionally, I recommend that UNS Electric be allowed to recover the credit support costs it incurs in the procurement of wholesale power and natural gas for the Company's retail customers. These costs should be allowed to be recovered through the PPFAC, or alternatively, through base rates as an adjustment to the Company's annual non-fuel revenue requirement in this case.

**Summary of the Testimony
of Martha B. Pritz
Docket No. E-04204A-09-0206**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct Testimony, I provide an estimate of the cost of capital for UNS Electric, Inc. ("UNS Electric" or the "Company"). Based on a capital structure consisting of 45.76% equity and 54.24% long-term debt, an 11.4% return on equity, and a 7.05% cost of long-term debt, I recommend a weighted average cost of capital of 9.04%. I establish the 11.4% return on equity recommendation using Discounted Cash Flow ("DCF"), Capital Asset Pricing Model ("CAPM") and Bond Yield plus Risk Premium ("BYRP") analyses. The DCF and CAPM models are familiar to the Commission; the BYRP analysis is useful because it is based on the fundamental premise that investors require a higher return for taking on greater investment risk. Since UNS Electric is not a publicly traded company, data from a proxy group of companies is used in the DCF and CAPM models. I point out that as a group, the proxy companies used in the models are less risky than UNS Electric, therefore returns on equity indicated by DCF and CAPM models are on the conservative side for UNS Electric.

In my Rebuttal Testimony, I focus on the cost of equity because the Company's proposals regarding the cost of long-term debt and the capital structure are not disputed by the Arizona Corporation Commission Staff ("Staff") or the Residential Utility Consumer Office ("RUCO"). I note that the cost of equity recommendations provided by Staff and RUCO are much lower than mine – 10.0% and 9.25%, respectively. I provide testimony critical of the inputs used by Staff witness David C. Parcell for his DCF and CAPM analyses and point out problems with the Comparable Earnings method. I criticize RUCO witness William A. Rigsby's inputs into both his CAPM and DCF analyses that result in a greatly understated return on equity. I also provide additional support for the analyses detailed in my Direct Testimony.

The purpose of my Rejoinder Testimony was to further address my concerns about the return on equity recommendations made by Staff and RUCO in light of data on allowed returns for electric utilities, earned returns on comparable companies, and expected premiums over cost of debt. I note that when I consider my original analyses, updated analyses and the outlook for financial markets, my recommendation of an 11.4% return on equity remains reasonable for UNS Electric.

**Summary of the Testimony
of Karen G. Kissinger
Docket No. E-04204A-09-0206**

I have filed Direct and Rebuttal Testimony in this case.

In my Direct Testimony, I am the sponsoring witness for the historical accounting and tax data reflected in UNS Electric's rate case Application included in the "E" Schedules – (Financial Statements and Statistical Schedules). I also sponsor the depreciation, property tax and the income tax pro forma adjustments in Schedules B and C.

In my Rebuttal Testimony, I discuss: (i) an updated pro forma property tax adjustment to reflect the most current available rates, and (ii) address the property tax adjustment recommended by RUCO Witness, Dr. Ben Johnson.

**Summary of the Testimony
of Dallas J. Dukes
Docket No. E-04204A-09-0206**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

As Manager of Rates and Revenue Requirements for Tucson Electric Power Company ("TEP"), I am responsible for monitoring and determining revenue requirements, customer pricing and rates structures for all the regulated subsidiaries of UniSource Energy Corporation ("UniSource Energy"), including UNS Electric, Inc. ("UNS Electric" or the "Company"). My testimony addresses the Company's proposed revenue requirement and the pro forma accounting adjustments to the test year, rate base adjustments and operating income adjustments. The following 12 key issues are those that I address that have not been accepted by Staff and/RUCO :

1. Rate Base Adjustments;
 - a. Post Test Year Non-Revenue Plant in Service and;
2. Operating Income Adjustments;
 - a. Normalized Income Tax Expense;
 - b. Payroll and Payroll Tax Expense;
 - c. Incentive Compensation Expense;
 1. Performance Enhancement Program ("PEP");
 2. Supplemental Executive Retirement Plan ("SERP");
 - d. Rate Case Expense;
 - e. Membership Dues Expense – EEI;
 - f. Call Center Expense;
 - g. Bad Debt Expense;
 - h. Outside Legal Expense;
 - h. Normalized Income Taxes; and
 - i. Fleet Fuel Expense.

1. Rate Base Adjustments.

- a. **Post Test Year Non-Revenue Plant in Service** – The Company proposes to include non-revenue producing post test year plant in rate base. Staff and RUCO both recommended that the Company's adjustment be disallowed – and argue against any inclusion of plant investment in rate base that is not in service as of the end of the test year as an exception to Commission's normal practice requiring extraordinary circumstances. The Company disagrees with Staff and RUCO, arguing for the inclusion of fixed, known and measureable investments in plant that do not materially increase revenues or materially decrease cost. The Company is arguing for treatment awarded by the Commission in other proceedings – to allow for more timely recovery of investments made to serve present customers and an improved opportunity at earning a reasonable return.

**Summary of the Testimony
of Dallas J. Dukes
Docket No. E-04204A-09-0206**

2. Operating Income Adjustments.

- a. Normalized Income Tax Expense** – The Company and RUCO followed the common and acceptable ratemaking practice of synchronizing the interest expense calculation for income tax purposes with adjusted rate base and thus with the amount of interest cost being recovered through return on rate base. Staff followed this methodology in its Direct filing but for an unexplained reason changed its methodology in its Surrebuttal filing. In the Surrebuttal filing Staff used actual interest expense based on test-year-ending debt levels, as well as the short-term interest cost associated with wholesale credit support. The Company strongly opposes this approach as it creates a material mis-match by significantly understating pro forma income tax expense. Staff's method in its Surrebuttal would reduce income tax expense for cost not included within revenue requirements. Thus, it would deny the Company a reasonable opportunity to recover its approved operating cost and return.
- b. Payroll and Payroll Tax Expense** – The Company proposes to include certain known payroll and payroll tax expenses. RUCO is recommending that the Company's payroll adjustments be reduced to remove the increase that went into effect January 1, 2010. RUCO argues that this adjustment is outside of the historical test year and should not be allowed because it could lead to a mis-match between test-year adjusted revenue and expenses. The Company disagrees with RUCO's exception as this adjustment is consistent with the treatments approved in the last three Southwest Gas rate orders, the last UNS Electric and TEP rate orders – and will not cause a mis-match of revenue and expense.
- c. Incentive Compensation Expense.**

 - 1. Performance Enhancement Program ("PEP")** – The Company proposes to include this cash-based incentive. Staff and RUCO both argue that PEP expense benefits both Shareholders and Customers and thus should be shared equally. They argue that this is consistent with prior Commission action and thus is still appropriate treatment in this case. The Company argued against such treatment in the prior case and continues to strongly disagree. No party has argued that these expenses are imprudent or that there is a benefit of having a portion of employees' fair compensation put at risk for individuals. The Company has provided substantial evidence to the reasonableness and benefits of its compensation structure and incentive program. The Company continues to disagree with the "who benefits" argument. The proper evaluation should be based on the reasonableness and prudence of expenses incurred that provide service to customers. To limit recovery of recurring expenses that are prudent, reasonable and incurred to provide service to customers is improper and confiscatory. Additionally,

**Summary of the Testimony
of Dallas J. Dukes
Docket No. E-04204A-09-0206**

Staff and RUCO ignore a recent Commission order that allows full recovery of cash based incentive compensation expense. In the Arizona Public Service Co. ("APS"), Decision No. 69663, – the cash based incentive compensation program that is equivalent to the PEP program discussed here was approved for full recovery by APS.

- 2. Supplemental Executive Retirement Plan ("SERP")** – The Company proposes to include this element of executive compensation. Staff and RUCO have recommended the disallowance of SERP expense as an excess benefit provided to select executives. The Company strongly opposes this representation as miss-leading and incorrect. This expense and program is not an "excess" benefit or cost. It is the cost required to keep retirement benefits "equal" as a percentage of compensation for the eligible employees. Although this program applies to highly compensated employees within the organization, the compensation level limits are set by the IRS to ensure recovery of tax revenues, and not because the pay levels themselves are imprudent or un-reasonable. Because the expense is a normal and recurring employee benefit expense, are not unreasonable and is incurred to provide service to customers it should be fully recoverable.
- d. Rate Case Expense** – The Company has proposed to include recovery of rate case expense incurred. Staff and RUCO believe that the rate case expense requested by the Company is too high. The basis for this argument is the amount awarded to the Company in its last rate case and not the actual cost the Company is presently incurring. Staff and RUCO's recommendations ignore the fact that UNS Electric has no rates group, has no legal staff, and has no support personnel for its rate filings. Therefore, there is no cost built into base rates for such services. The Company must contract for these services from outside experts. The primary source of that service is TEP personnel – which the Company believes to be the most cost effective way of administrating the process.
- e. Membership Dues Expense – EEI** – The Company has included Edison Electric Institute ("EEI") dues as expense but has reduced the amount of the dues by 12.7%. RUCO is recommending a 40% reduction and Staff is recommending a 49.93% reduction. RUCO's reduction is based on the position that a large, but indeterminate percentage of EEI's activity is related to influencing legislature and thus no more than 60% of the cost of membership should be recovered from customers. Staff's reduction is based upon the previous Commission decision and disallowance percentage for UNS Electric. The Company disagrees with both reductions believing that it has provided substantial and compelling support of and for the many benefits provided by the membership and the expense sought for recovery is reasonable and should be recoverable.

**Summary of the Testimony
of Dallas J. Dukes
Docket No. E-04204A-09-0206**

- f. Call Center Expense** – The Company has included its actual allocated Call Center expense. Staff has chosen to reduce the test year level of expense associated with the call center that serves UNS Electric. Staff asserts that the expense has unreasonably increased since the last rate filing and they have reduced the cost to the same level as the last rate filing. UNS Electric's last rate filing was with a test-year ending on June 2006. That will likely be almost four years ago from when new rates in this case go into effect. The cost of the call center allocated to UNS Electric has increased by approximately a 4% annual amount since the last test year to the present test year. Given the expansion of the services provided and normal increases in cost associated with payroll, benefits and phone line expense – the Company believes the test year level is reasonable and should not be reduced.
- g. Bad Debt Expense** – The Company has included a Bad Debt Expense based on a three year historical average. Staff has increased the Company's pro forma bad debt expense asserting that the Company has somehow mis-matched its average cost of bad debt per adjusted retail dollar. The Company believes that its adjustment is reflective of a normalized level and is appropriate.
- h. Outside Legal Expense** – The Company, Staff and RUCO have all proposed a normalized level of Outside Legal Expense to cover ongoing and changing litigation matters. All have used differing normalization techniques. Staff has proposed a four year average looking at the actual cost of 2005-2008, RUCO has proposed a three year average using 2006-2008 and the Company has proposed a three year average using 2005-2007. The Company believes its proposed level is reflective of normal and recurring levels.
- i. Fleet Fuel Expense** – The Company is seeking a fleet fuel expense essentially based on a three year historical average of actual cost levels per gallon incurred by UNS Electric in its service territory. Staff has adjusted the fleet fuel expense of the Company to reflect the recent decreases in actual fuel cost in 2009 since the end of test year period. The Company does not oppose the adjustment of test year expense as fuel costs have materially reduced from the test year. However, the Company does believe that these costs are more likely to increase from the 2009 level then decrease while these rates are in effect. Thus the normalized price per gallon being proposed by the Company produces a fair and reasonable level of fuel cost recovery to be included in the Company's cost of service.

**Summary of the Testimony
of D. Bentley Erdwurm
Docket No. E-04204A-09-0206**

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct Testimony, I sponsor UNS Electric, Inc.'s ("UNS Electric's" or the "Company's") class cost of service study and rate design proposals, including the weather normalization and year-end customer annualization pro-forma adjustments. The Company proposes to increase monthly customer charges to reflect customer-related average embedded cost, in accordance with accepted practice in this jurisdiction. This will result in a modest increase in the residential customer charge from \$7.50 per month to \$8.00 per month. UNS Electric's proposed \$8.00 residential customer charge is less than the weighted average residential customer charge of Arizona's three largest electric utilities. I address the Company's proposal to expand time period differentials in the Time-of-Use Rates, thereby providing an enhanced incentive to shift load to off-peak periods. I also address a newly-proposed Super-Peak Time-of-Use option, under which there is a single summer "on-peak" hour. I have prepared tariffs reflecting the rate reclassification associated with Black Mountain Generating Station ("BMGS"), as supported by Company witness Mr. Kentton Grant. Finally, I discuss the Company's Customer Assistance Residential Energy Support ("CARES") program and expansion of low-income assistance programs.

In my Rebuttal Testimony, I respond to Arizona Corporation Commission ("Commission") Staff ("Staff") and Residential Utility Consumer's Office ("RUCO") Testimony on rate design and cost of service. Dr. Ben Johnson's (RUCO) proposal to lower the residential customer charge to \$5.00 per month and add a third rate tier would erode the revenue stability of the Company. RUCO's proposed customer charge also runs counter to the average embedded cost approach that historically has been the basis for customer charges in Arizona. Mr. William C. Stewart's (Staff) proposal to apply downward Purchased Power Fuel Adjuster Clause ("PPFAC") adjustments to low-income customers' bills, but exempt these customers from upward adjustments is inequitable, placing an unjustified burden on non-low-income customers. Additionally, I address Dr. Thomas Fish's (Staff) position regarding a \$61,797 adjustment to operating income related to the CARES program.

In my Rejoinder Testimony, I respond further to Dr. Johnson's Surrebuttal Testimony on the customer charge and tiered rates. Additionally, I address Dr. Thomas H. Fish's and Mr. William C. Stewart's Surrebuttal Testimony on the expansion of the CARES program, and further address Dr. Fish's position regarding a \$61,797 adjustment to operating income related to the CARES program. I demonstrate that this adjustment is not a "double-count" as Dr. Fish alleges, but a reasonable and necessary adjustment associated with weather normalization and customer annualization. Finally, I note that any Commission approved rate structure should align important policy goals (e.g., conservation and efficiency) with a financially-healthy public service corporation. Dr. Johnson's artificially low customer charges are not consistent with aligning those goals. The Commission should establish rates where the Company's need to recover revenues to meet its fixed costs is independent of energy consumption. Then, the Company has no disincentive to promote conservation and the efficient use of energy.